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General Manager's Corner

By John Schaffer

While many of us have not been directly affected by the destruction left in the wake of Hurricane Katrina, we are all going to feel the economic impact. We have already seen the sharp increase in gasoline prices, and energy experts are speculating that the cost of natural gas may be up 70 percent this winter. Electricity costs may also rise 17 percent this winter. Fortunately, the DES team had hedged approximately 85 percent of our expected natural gas requirement for this winter. That leaves only 15 percent of our need subject to higher prices.



Tim Hestle and John Schaffer

Now is a critical time for every building on the DES system to conduct an immediate audit to ensure that it is operating as efficiently as possible. I mentioned purchasing up to 15 percent of our natural gas needs at higher prices. Every single improvement each building undertakes will lower that percentage. While we cannot control the weather, we can minimize our need to purchase natural gas on the open market. Completing this task now will provide an immediate benefit to every heating customer on the DES system.

We can say the same for DES cooling customers. Making sure that your air handling units are properly balanced and the filters are clean will lower your in-building electric usage costs from DES. I was recently sent a very informative article relating to district chilled water systems that I will be forwarding soon to all cooling customers.

Customers who would like to discuss what improvements they can make within their buildings are encouraged to call Chuck Tucker at the Energy Generation Facility and set up a meeting. Chuck can be reached at 742-1883, ext. 28.

I would like to thank everyone in advance for their cooperation.

John



DES Advisory Board holds second quarterly meeting

The DES Advisory Board heard nothing but good news at its second meeting as it learned the Energy Generation Facility (EGF) is in solid shape both fiscally and operationally. The board, established in 2004 to continually review DES and make reports and recommendations to the mayor, met Aug. 18.

Following are some of the topics discussed:

- Trends in several different areas, such as weather, steam sales and chilled water sales, and electric and natural gas usage for the year.
- The monthly inspection process of operating equipment, maintenance work in progress, safety equipment and instrumentation and controls.
- The facility, its grounds and the structure of the building, which are up to par with the rest of the facility.
- The 2005 fiscal year and review for the 2006 fiscal year budget.

The board's next meeting will be Nov. 17.

The Effects of Hurricanes Katrina and Rita on Natural Gas Supplies and Costs

In less than 30 days, Hurricanes Katrina and Rita wreaked havoc on the energy infrastructure in the Mississippi, Louisiana and Texas offshore Gulf Coast areas. In addition to damage incurred by onshore refining and processing facilities, the two storms ripped through vital production areas in the Gulf of Mexico. Numerous offshore producing and drilling platforms and natural gas and liquids pipelines used to transport offshore production to onshore handling facilities were damaged or destroyed.

The result: Offshore natural gas production has been reduced by approximately 8 billion cubic feet per day. This represents approximately 16 percent of all natural gas normally produced in North America and is enough to supply 80,000 average households for a full year. Early indications are that it will take some time for the industry to bring production back on track. Some of it will be lost forever.

Energy prices, including natural gas, were on the rise before Katrina and Rita – now they are at an all-time high. Forward trade natural gas prices on the New York Mercantile Exchange (NYMEX) for this coming winter average in excess of \$14 per million Btu, approximately 75 percent higher than prices being traded at the time DES prepared its fiscal year 2006 budget.

That's the bad news. The good news is that, as a result of DES' price risk-management program, we believe there will be no more than a minor increase, if at all, in DES' overall gas costs during the year. DES has approximately 85 percent of its estimated natural gas requirements through the winter of 2005-06 hedged at an average price of about \$8.30 per million Btu, an awfully good price compared to the current forward traded prices. However, the occurrence of the force majeure events may temporarily interrupt our ability to achieve our hedged price levels.

We will provide more details regarding natural gas supply and costs in our upcoming annual customer meeting. In the meantime, your continued efforts to conserve energy are critical. We appreciate your efforts.

Customer Profile: State of Tennessee

Underground tunnel connects pipes with buildings

DES supplies energy to a majority of the state of Tennessee's downtown buildings, including the Tennessee Performing Arts Center, Citizens Plaza, the state Capitol, the Supreme Court and the Tennessee Tower Building. In addition to providing heating and cooling services to the state buildings, DES makes repairs and updates to equipment to keep services running efficiently.

Few Nashvillians realize that a large concrete tunnel exists connecting all the state-owned buildings. *continued on page 3 >*

Meet J.B. Loring:
Chairman of the DES
Advisory Board



J.B. Loring

J.B. Loring's background in energy and government make him a perfect fit as chairman of the DES advisory board.

Loring is currently in his sixth year as representative for District 15 in the Metro Council. He spent 30 years with the Nashville Electric Service, most recently as director before retiring. He served in the U.S. Coast Guard for three years and in the U.S. Air Force for two years in Korea during the Korean War. He is a past president and a life member of the Korean War Veterans Association and a life member of the American Legion and the Veterans of Foreign Wars.

Loring is a native Nashvillian and attended the University of Tennessee, where he received his pre-law degree. He later attended Nashville School of Law and received his Doctor of Jurisprudence. He and his wife, Ann, live in the Donelson area and have two sons, J.B. of Old Hickory and Mike of Kingsport. "DES is really doing an excellent job," said Loring. "The Energy Generation Facility is in great shape, and I'm proud to be a part of it."

The tunnel is large enough for maintenance and repairmen to move through and houses infrastructure for vital utilities, including heating and cooling pipes from DES.

Through its service to the state, DES provides each branch of the government - executive, judicial and legislative - with heating and cooling services that help keep Tennessee running efficiently. DES is proud to serve the state of Tennessee, its employees and its residents in such a capacity.

2006 IDEA Conference to be held in Nashville

The 2006 International District Energy Association (IDEA) conference will be held in Nashville from June 11 to June 14, and local DES employees got a preview at what's in store for the city at the 2005 conference in St. Paul, Minn.

Several DES employees attended the 96th annual conference and enjoyed the sessions and activities that were available in the surrounding area.

The opening session, "Think Globally, Invest Locally: Recycle Energy," included an international panel of speakers representing district energy systems in Canada, China, France, South Korea, Sweden, and The United Arab Emirates. Each gave a presentation about district energy in their parts of the world, and discussed strategies and visions for industry growth. The keynote speaker was Christine Todd Whitman, who served as administrator of the U.S. Environmental Protection Agency (EPA) from 2001 to 2003 and as governor of New Jersey from 1994 to 2001.

Vendor exhibits and evening receptions showcased the latest equipment and provided good opportunities for networking with peers. There were also technical tours to demonstrate how district energy is being used in the area. Outside of the IDEA conference, many different activities were offered to attendees, including the IDEA Annual Golf Tournament, a fishing trip, tours of the city and an antique car and hot rod show.

The next months leading up to the 2006 IDEA conference are going to be very exciting and busy, and DES is looking forward to preparing Nashville to host the conference and boast about its state-of-the-art EGF facility.



St. Paul District
Energy Production Plant

Construction Updates: Summer 2005

The summer and fall seasons are proving to be busy for everyone involved with the Energy Distribution System (EDS) expansion. The following projects, currently under construction, will further expand the District Energy System's areas of service.

- There are several projects proposed for 2006, including replacing the condensate lines to the Ryman Auditorium and from the Metro Courthouse back to Third Avenue.
- Construction will soon begin on the decoupling of the Tennessee Tower Building; the replacement of the outdated steam and condensate service lines to the Parkway Towers Building; and replacing the existing line at the State Library and Archives Building.

DES invests in upgrades to enhance reliable service

In order to continue to provide the best and most reliable service to its customers, DES has undergone several upgrades and repairs since fall 2003 and will continue to do so into 2006. These upgrades include several steam and condensate line replacement projects, including one on Deaderick Street and one on Charlotte Avenue at the Andrew Jackson Building. DES also recently completed the replacement of an aging steel structure with a concrete structure to further ensure safe and reliable service to customers. In addition, there are ongoing projects to upgrade customer commodity metering in 29 of the buildings served by the Energy Distribution System. These upgrades are set to be completed early in 2006.

Four new customers signed in 2005

Metro DES is providing heating and cooling to two additional downtown buildings and is working to connect two more buildings currently being erected.

- The Schermerhorn Symphony Center was connected to the Energy Distribution System (EDS) on May 31.

The Metro Public Library was connected with service for chilled water July 31 and for steam service on Aug. 1.

- Construction on the Justice A.A. Birch Building, Metro's new Criminal and General Sessions court building (originally to be named the Beverly Briley Building) is well under way and is coming along successfully. Construction included excavating a tunnel 5.5 feet in diameter and approximately 330 feet long to accommodate the piping for this project. With that section complete the building is expected to be connected to the EDS in early spring 2006.

- The Viridian Tower construction is also on schedule, and the building is expected to be connected to the chilled water service around the same time next year.



The Viridian Tower

DES is proud to be a part of these exciting projects and looks forward to providing new customers with the best possible service.

Meet William C. Tucker: Customer Service Representative

William C. "Chuck" Tucker, customer service representative for DES, has been with the company since December 2003 and is responsible for assisting DES customers with any concerns, issues or questions they may have with DES services at their facilities. He and Greg Clark, Constellation Energy Projects & Services Group (CEP&S) manager, work closely together to oversee projects and coordinate any necessary service interruptions that may affect customers' facilities. If there is a problem, Tucker helps find a solution and works hard to guarantee customer satisfaction.



Chuck Tucker

Prior to joining DES, Tucker worked at Nashville Thermal Transfer Corporation for 23 years as the plant's maintenance service technician. The Gallatin, Tenn., native lives with his wife of 26 years, Penny, and their two children, Justin (19) and Chris (16). Tucker is an active member of his community, where he volunteers as a youth sports coach and is a member of Goodwill Missionary Baptist Church. In his spare time he enjoys hunting, fishing, and spending lots of time with his family.